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2. INDONESIA

Indonesia's "new order" has good prospects for maintaining political stability for the next year or so but faces continuing economic problems of considerable magnitude.

The Indonesian Army, which remains under the command of Acting President Suharto, is the nation's major political factor. Top army leaders will continue to determine national policy and army officers will staff significant posts at all levels of government. Civilian leaders and organizations resent the growing pervasiveness of military influence, but they have little capability to translate their feelings into significant political action.

The Communist Party remains fragmented and under continuing military pressure. Its decline begun in October 1965 probably has not yet ended.

The next political milestone should be the congressional elections, now slated to be held no later than mid-1968. Suharto has publicly cautioned political parties, however, to keep their campaigning in low key lest pre-election activity disrupt national unity.

The economy has responded slightly to a stabilization plan inaugurated last October. The gradually applied stabilization measures retarded the rate of inflation during the last quarter of 1966, but higher government expenditures in December and the seasonal rice shortage during the past three months have sent prices spiraling upward again. Collections from direct taxes have improved, but those from indirect taxation continue to lag.

International Monetary Fund (IMF) advisers, while gratified at some of the results of the program, have cautioned that financial stability cannot be achieved unless all economic measures are implemented with greater effectiveness. The IMF hopes the stabilization program will gradually evolve into a comprehensive development program. (CONFIDENTIAL)

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3. BRAZIL

President Costa e Silva has assumed office armed with potent weapons to confront the country's still formidable economic and political problems.

Former president Castello Branco left his successor an impressive legacy, including a new constitution incorporating many of his special executive powers, a stiff new law strengthening and broadening the basic concept of national security, and a recently enacted press law containing provisions to curb Brazil's often slanderous journals.

Costa e Silva may well chart a course differing radically in style, and perhaps in some matters of substance, from that of his predecessor. The new cabinet contains several open critics of the Castello Branco administration who may seek to stress their political differences with the former regime while adhering to its basic policies. Foreign policy will remain staunchly pro-Western, but is likely to become more nationalistic and independent and less closely tied to the US. Production and economic growth rather than austerity will probably be emphasized as the principal means of achieving financial stabilization. Restrictive wage and credit policies, the cause of much popular dissatisfaction, may be relaxed. Foreign capital, while still welcome, may be more strictly controlled.

Costa e Silva's primary base of support, like Castello Branco's, will be the armed forces. Opposition groups, including most students, much of organized labor, and a wide variety of politicians, can be expected to grow increasingly vocal in their demands for significant liberalizations. The military will continue to press for further purges of subversives and corrupt officials. Costa e Silva's leadership will be severely tested as he attempts to broaden his popular support while maintaining the delicate balance between these forces. (SECRET NO FOREIGN DISSEM)

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4. VENEZUELA

The recent outbreak of guerrilla attacks and the murder of the foreign minister's brother have provoked charges from Caracas that Cuba is the power behind the continuing subversive activity in Venezuela.

Government leaders are considering the possibilities of presenting accusations against Cuba before the Organization of American States and the United Nations and making demarches to countries--such as the UK and Mexico--whose trade or diplomatic policies the Venezuelans believe are indirectly facilitating Cuban subversion. Venezuelan officials continue cool toward the USSR, which they hold responsible for its support of the Castro regime.

President Leoni has said that the Venezuelan armed forces will be expanded to cope with an expected increase in insurgency over the next two years. Current plans call for improving the poor field communications capability and raising ten additional army battalions. Caracas hopes to buy materiel for this expansion in Western Europe and the United States and will probably ask US officials for assistance in obtaining equipment and instructors.

Venezuelan military leaders have been disturbed by the apparently increasing ability of the guerrillas to carry out attacks at will and to withstand countermeasures. At present insurgency must be considered more of a nuisance than a threat. Nevertheless, guerrilla warfare and especially urban terrorism have had a profound psychological impact. Unless the government is able to reverse the trend of guerrilla successes quickly, public and military discontent with the government may cause the security situation to deteriorate rapidly. The government is aware that it must take strong action, but it is not clear whether the contemplated measures will be effective. (SECRET NO FOREIGN DISSEM)

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